1-17-2012

Business Innovation Group (BIG) News

Georgia Southern University

Alternative Forms of Credit Grow

January 17, 2012

Informal investors of the "friends, family and fools" variety have likewise been hit and are less able to help. Angel investors are spreading their funds more thinly as a reaction to risk, investing less in each business, and venture capitalists have slowed their efforts to focus on husbanding existing investments to an exit.

Luke Pittaway

If entrepreneurs can't find funds to start and small businesses can't find funds to expand, we face a serious investment crisis that will impact job creation. Uncertainty in markets may be holding back large corporations from creating new jobs, but the "credit freeze" is killing the job creation potential of entrepreneurs.

Most governments have acknowledged the problem. In the U.S., the Obama administration has expanded the Small Business Administration's loan guarantee program and increased the percentage of the loan it is willing to underwrite.

Traditional approaches are failing. In the case of the SBA loan program you still need the banks to play ball. The combination of federal bureaucracy and tougher underwriting standards has also made the loans difficult to apply for, slow and unwieldy, which is bad news.

The UK in contrast is debating a novel alternative. A new form of "credit easing" has been proposed. A form of "quantitative easing" (printing money to buy government bonds) credit easing, as proposed in the recent Conservative party's conference, has two phases.

Phase one involves government purchases of corporate debt, which is designed to drive down corporate debt yields and encourage investment by larger businesses. In the second phase the government proposes using government funds to establish a corporate bonds market for small firms.

These corporate bonds then lend directly to small businesses, thus sidestepping traditional lenders. There is a lot of speculation about why this has been proposed in the UK. But let's imagine the default of one or more Mediterranean countries and the spillover effects that would endanger banks worldwide yet again.

Rather than using taxpayers' funds to bail out the banks, the proposed credit easing would enable the UK government to lend directly to corporations, small businesses and entrepreneurs. This approach would remove toxic banks from the equation.

Meanwhile, market failure also leads to market innovation, and there are new ways for entrepreneurs to raise funds.

Crowdfunding is the new game in town. It allows

In this week's Eagle Executive Briefings column, "Alternative forms of credit grow," published in Business in Savannah, Luke Pittaway explained the factors limiting job creation and economic growth.

Luke writes:

"If entrepreneurs can't find funds to start and small businesses can't find funds to expand, we face a serious investment crisis that will impact job creation. Uncertainty in markets may be holding back large

corporations from creating new jobs, but the 'credit freeze' is killing the job creation potential of entrepreneurs."

Luke goes on to describe a novel governmental approach to financing new ventures in the United Kingdom. He also identifies internet sites that specialize in "crowdfunding" and if you don't know what that term means, then you definitely need to read Luke's column.